Banks Need the Right Technology Solutions to Minimize Revenue Leakage While They Become Customer-Driven

eBook

Introduction

Digitalization is forcing banks to walk on a tightrope. On the one hand, they need to become more agile and customer-centric to facing growing competitive pressure from both traditional and new rivals; on the other, digitalization is transforming their business/operating models and internal processes. For banks, these forces are not just redefining efficiency, productivity, effectiveness and people performance, but also impacting their revenues, profitability and growth.

Traditionally, more product-centric banks relied on siloed solutions to address different functions such as product innovation, CRM, billing etc. But in a more dynamic, uncertain, customer-centric world, banks will need to solve their current and emerging multi-faceted challenges through new age technology solutions that unify, integrate, and transcend the legacy silos. Only this will provide decision-makers with more reliable data and actionable insights in real-time. Anything less will no longer be accepted by customers.

In response to threats from fintech and Big Tech players, retail banks are investing in new solutions that sit on top of their existing systems, modernizing their legacy core banking platforms and building ecosystems. The wholesale or corporate banking space too needs to transform to be better able to satisfy changing customer needs, wants and expectations. If they don't, they will either end up with high customer churn or leave money on the table; in the worst-case scenario, banks will face both these eventualities. This goes against what banks need to sustain profitable growth:

Retain the most valuable existing customers and constantly expand their footprint with them, and

Acquire new customers and service them well to grow those relationships.

As is often said, it is the details that trip us up. The lifecycle of a typical corporate bank's deal with its customer is complex and multi-layered, and appreciating this is crucial to coming up with solutions.

Analysis Report

Deals Between Banks and Their Customers Have Complex Lifecycles

A typical deal between a bank and its corporate customer is concluded on the basis of a customized basket of solutions that the latter needs (e.g., current accounts, treasury management, capex or working capital loans, OD facilities, foreign exchange, trade finance, etc.). Banks will seek to create a basket that optimizes its expected revenues and margins, based on information available at the time the deal is negotiated and closed. On its part, the corporate will choose to accept those offerings and conditions (pricing etc.) that give it the sweetest deal (higher interest rates on deposits, lower interest rates on loans, more flexible OD facilities etc.) based on its forecast of needs during the term of the contract.

But as with any business deal, signing the contract is just the beginning of the actual service delivery and revenue generation journey. The bank starts to derive revenues over a period of time, through the different products and services it delivers to the customer. Depending on the customer's business and the contract, this could include revenue from overseas locations denominated in foreign currencies. The complexity is amplified when you consider that each corporate customer will have its own unique needs, contract terms, thus leading to different revenue stream patterns for the bank. Managing these diverse revenue streams is a complex task.

If the bank also has a retail banking division, it is conceivable that the deal may seek to cover retail products such as employees' salary accounts, corporate/ personal credit cards, home loans, vehicle loans, insurance etc. Each of these will have its own pricing and terms, and hence, estimates of revenue (quantum and timing) based on a separate set of projections around the corporate's employees and their families.

The health and longevity of the relationship will be determined by the perceived value-addition by the bank. This, in turn, depends on how well the bank is able to meet customer needs and to what extent the corporate keeps its end of the deal (i.e., consuming the volume of products and services forecast by the bank). For every customer, the bank's revenue and profitability directly depend on how competitively it is able to price its offerings, and thereafter, deliver the necessary solutions and services and collect the revenue due (both from the corporate and retail customers) per the agreed schedule.

To manage this complex task of revenue management, banks need the right digital tools to:

- Efficiently manage their products/services and deliver them to customers through a mix of "phygital" channels.
- Effectively ensure that they are able to bill every corporate/retail customer accurately and on time and collect the monies owed, so that the revenue streams are actually realized.

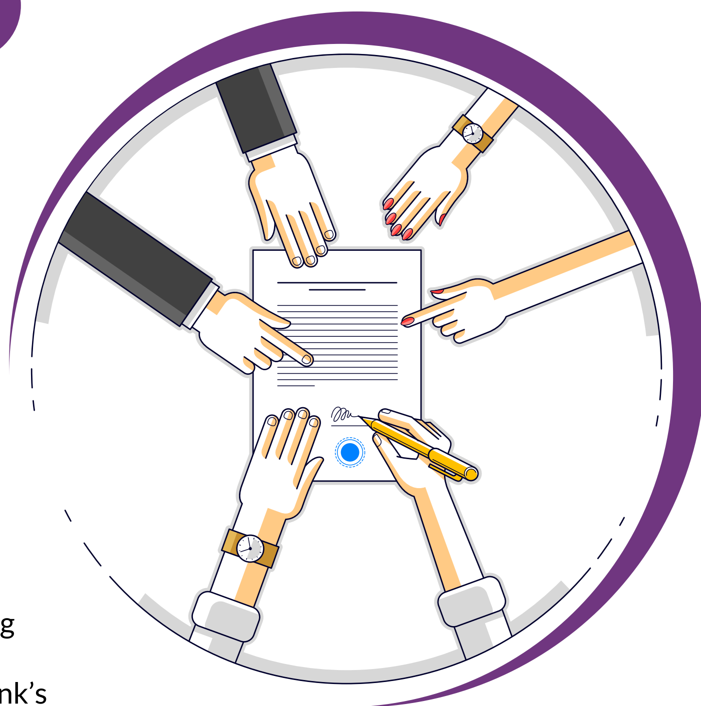
Banks that are not equipped will suffer adverse impact not just to sustainability of revenues and profitability but will also risk damage to customer relationships, market reputation and employee morale, which are more difficult to recover from.

Revenue Management Challenges Exist at Every Stage of Every Deal

To understand the revenue management challenges that can arise between a corporate bank and its client in the course of one contract term, it is useful to break down the entire lifecycle into distinct stages. This makes it easier to appreciate what happens at each stage, comprehend the myriad challenges faced at each stage and appreciate their linkage with the lack of appropriate technology solutions. This approach also helps gain a better understanding of the trade-offs that inherently exist in the lifecycle - for example, customer satisfaction and loyalty vs revenue and profitability for the bank; speed-to-market vs optimal deal parameters; global vs local considerations to determine renewal etc.

Summarized below are the five distinct stages that banks must go through with their customers from a revenue management standpoint.

Step 1: Initial deal closing

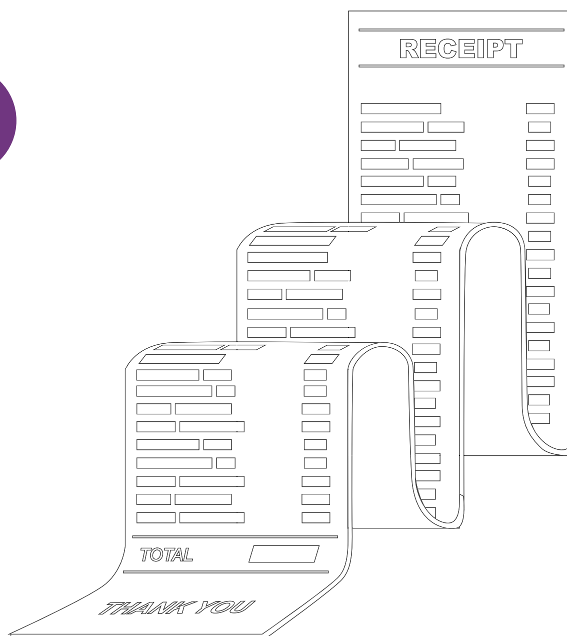


The key objective of this step is for the corporate bank and its client to arrive at mutually acceptable pricing and other contours of the deal. Each side will negotiate based on the "value" that it expects to gain from the relationship vis-à-vis the next best option available (another bank or another corporate customer). Such "value" cannot be precisely quantified in advance; however, it can be modelled by both sides on the basis of assumptions and available data. Naturally, the quality and reliability of the estimates will depend on the robustness of the underlying data.

Even after the account team agrees on a "deal", pricing and other decisions need to be approved by bank executives at the appropriate levels, as part of the bank's governance and risk management processes. In many banks, such approvals (especially for exceptions) are still sought and given via e-mails. It is inherently harder to track such approvals and maintain a clear audit trail. If analyses, what-if scenarios and approvals reside in spreadsheets and emails, employee attrition gives rise to additional risks. Despite institutionalized practices and the best efforts to effect smooth hand-overs, the risk of delays or disruption cannot be ruled out.

The main trade-off for the bank is to close the deal quickly and to the customer's satisfaction before competitors can step in while simultaneously ensuring that the pricing and other terms are beneficial to the bank as well. For the first contract, the bank will need to make pricing and other decisions using projected revenue and cost models. This step becomes especially critical when the bank is looking at renewing its contract (and thus ought to have access to reliable and granular data for the earlier contract period).

Step 2: Billing and invoicing



Through the contract term, the bank will need to regularly bill its customers for various services rendered. Invoices must be accurate, i.e., reflect the agreed pricing (and discounts as applicable), and raised on time, i.e., per the contracted schedule. If the invoicing process is not fully automated and tied to a robust central pricing engine, there is a higher likelihood of delays in generating invoices, getting them approved and finally, submitting them to the customer. In turn, this can lead to delays in collecting the revenue due and cause challenges around revenue recognition (which becomes even more critical during quarter or annual closing). Many banks still run this process in ways that need a high level of manual effort because they have to collect data from disparate systems. This inherently increases the risk of errors and/or delays.

Additional complexities can arise if the customer is a multinational corporate, with each region being a different legal entity with varying invoicing currencies and schedules. Projected invoicing for the months/quarters ahead needs to be fed into the bank's sales pipeline, and errors can amplify challenges for individuals, teams and the entire bank.

Another wrinkle takes the form of mid-term pricing changes that may occur when specific milestones are hit or for other reasons (e.g., the central bank changes interest rates). With a central price execution engine, such scenarios are easy to manage, but in a partially-automated scenario, unless all teams responsible for invoicing are informed and all systems are suitably updated at the same time, there is always the risk of incorrect invoices slipping through the cracks. In the larger context of the relationship between the bank and its customer, such instances can easily erode trust and damage customer experience, the antithesis of what customer-driven banks aspire to be.

Step 3: Settlement

Most corporate invoices are error-free. But "most" is not "all". If there are disputes over invoices, the settlement process gets impacted. For the bank, there is also the revenue leakage impact - something that directly impacts its financial performance and possibly, market reputation as well. Also, in the absence of accurate data about what caused the issue, the settlement itself may be unfair to one party.

The bank needs to know whether the settlement delays are being caused due to genuine issues in the invoice caused at their end or there are other factors. Automated revenue management solutions are designed to capture such exception data and appropriately flag the key stakeholders so that the dispute is resolved through necessary actions by both the bank and/or the customer. Such data points become especially important when the contract comes up for renewal, as they will be used to negotiate a better deal for the bank in the sense of protecting the bank's legitimate interests more effectively.

Step 4: Assessment

Every bank periodically assesses its relationship with its customers to evaluate health, size, extent of penetration of products/solutions/service, growth, profitability etc. These reviews are based on a combination of actual data and inputs from the account team, and largely determine future course of action: invest to grow, maintain and defend, or deprioritize and close.

Logically, such reviews must be based on a wide range of objective data points. Banks that use the right revenue management tools will more easily be able to obtain up-to-date data, with one version of the truth, thereby enabling better-informed decisions. Banks that lag behind are more likely to have to rely on data that is manually gathered from multiple sources. Not only does this increase the risk of incorrect data being used (inadvertently or otherwise), but it also needs the account team to spend significant time and effort in collecting the relevant data points and organizing them in the necessary formats. Given that alternatives are available, employees will see this as a "non-value adding activity" whose performance causes dissatisfaction.

`different reasons. If all relevant data points from all regions are not available to the team assessing the relationship or responsible for making decisions about the future trajectory of the relationship, a holistic view is not possible. This could result in important decisions being made on the basis of partial information. The result may well be incorrect or sub-optimal decisions, besides making it harder for the bank to defend its position during customer review meetings or negotiations. For example, a one-off bad experience in one specific market should not bias the bank's overall decision about what deal they offer the customer.

Step 5: Contract renewal

Assuming that the decision taken by the bank's leadership team is to grow the relationship, the account team will start discussing renewal with the customer team a month or two before the end of the current contract. This gives both sides enough time to agree on the price and other aspects of the deal for the next contract term.

While the potential for future revenue/margin growth and footprint expansion will be important criteria for the bank in renewing its contract, so too will be the need to reduce, if not eliminate, irritants such as a higher-than-acceptable rate of settlement issues or payment delays. On the other hand, the customer will seek better invoicing accuracy (or zero errors) and of course, finer pricing. In the absence of validated data that is best obtained from automated systems, a lot of time and effort will be spent on questioning and accepting the validity of the data presented.

For both the bank and its customers, their respective "gives" and "gets" will be driven by their respective strategic and tactical priorities. Having access to objective, verifiable data strengthens the ability to analyze the situation and make informed decisions that will add business value. This is another benefit of having an intelligent, central revenue management engine.

Administation
HUB
Current projections & Expected targets
Q1
Q2
Q3
Q4
Control Tabs
General
Projections

Lack of Robust Revenue Management Solutions Can Impact Banks in Many Ways

It is evident from the preceding analysis that banks with the right technology solutions to automate revenue management are better equipped to meet customer expectations. Conversely, banks that don't have the right solutions in place are more likely to face multiple challenges that act as headwinds to growth. While the ultimate impact of all these challenges will be on the bank's financial performance, it is useful to segregate them into two buckets. The first is around revenue leakage and lost margins; the second has more to do with customer loyalty, employee satisfaction and engagement, reputation and growth.

Lack of robust revenue management solutions can impact banks in many ways

Banks that lack a robust revenue management engine run the risk of billing errors that will take time to be fixed. This thus leads to delayed or lost revenue. The need for manual effort adds to costs, thus creating a pincer squeeze on account-level profitability. This situation affects the bank, but more particularly, the region and/or account management teams.

In the absence of the right revenue management solutions, employees will spend significant time and manual effort on processes such as timely invoice generation, checking for errors and fixing erroneous invoices, exception management, and finally, submission to the customer.

When customer relationships are threatened due to no fault of theirs, employee morale takes a hit. A feeling of being asked to deliver with their hands tied and eyes closed sets in. If this is not quickly addressed, talent attrition can be triggered. Loss of talent can impact the bank at many levels. For one, it takes time to find replacements and costs go up, adding to margin pressure. Further, some employees could end up with competitors who leverage the new employee's relationships to offer a sweeter deal that causes customers to shift loyalty to another bank. The loss of valuable customers can further weaken employee morale. At a time when customer relationships are key determinants of the bank's overall profitability and profits, such events can cause the bank to be caught in a downward spiral.

Erosion of trust and damage to customer centricity

Not having the right tools, and hence accurate, reliable data at the right time can hamper a bank's customer relationships at many levels. Errors in basic customer-facing processes such as invoicing and settlement can quickly erode the trust between a bank and its customers.

In a competitive environment, a dip in customer experience is just the kind of opening competitors are waiting for. A foot in the door can quickly lead to pressure on the relationship, with implications for renewal possibilities. In the face of customer attrition triggered by dissatisfaction, the bank's task of sustaining profitable growth - an uphill climb to begin with, becomes even harder.

The net result of all this is adverse impact on the bank's financial performance, which in turn has a cascading effect on the bank's market reputation and stock market performance. And that makes it harder for the bank to attract top talent, not to mention winning new corporate business.

In a nutshell, a bank that does not have the right revenue management tools in place faces a higher risk of a lose-lose-lose situation for all key stakeholders of the bank:

- Customers don't get the desired value from the relationship.
- Employee efforts to profitably grow customer relationships are hampered through no fault of theirs, leading to a sense of dissatisfaction, disengagement and eventually, attrition.
- Banks leave money on the table, besides losing out on the opportunity to forge strong customer relationships that give them greater wallet share and a higher probability of even more profitable renewals. This endangers sustainable business growth.

A rules-based, easily-configurable, central revenue management system that is easy to deploy and works equally well with the bank's legacy or modern core banking platforms (and can be ported when necessary) can play a major role in improving financial performance by eliminating revenue leakage, reducing overheads. It can also contribute tangibly to help the bank become more customer-driven. Given that both these are key imperatives for banks in a digital world, it would not be a stretch to compare a revenue management system with the proverbial nail in a horseshoe, the importance of which is eloquently captured in these age-old words of wisdom:

> *“For the want of a nail the shoe was lost,*
> *For the want of a shoe the horse was lost,*
> *For the want of a horse the rider was lost,*
> *For the want of a rider the battle was lost,*
> *For the want of a battle the kingdom was lost,*
> *And all for the want of a horseshoe-nail.”*

One can't but marvel at how apt these words are in the context of banks that have not invested in technology solutions designed specifically to enhance the efficiency, reliability and throughput of business-critical customer-facing processes such as revenue management. Given the highly competitive nature of the banking business, if these banks don't take corrective actions soon, they could well lose their "kingdoms."

About SunTec

SunTec is the world's No. 1 pricing and billing company that creates value for enterprises through its Cloud-based products. More than 130 clients in 45+ countries rely on SunTec to provide hyper-personalized products, offers, pricing, loyalty programs, and billing for over 400 million end-customers. SunTec products are based on our cloud-native and cloud-agnostic, API first, micro-services-based proprietary platform, Xelerate and are delivered on-premise, on private cloud and as SaaS. SunTec has global operations including the USA, UK, Germany, UAE, Singapore, Canada, Australia and India. For more information, please visit us at www.suntecgroup.com or email us at marketing@suntecgroup.com

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